



# Department of Transportation

## Financial Management Oversight



Washington, DC  
April 17, 2007

# Agenda

- Grantee Regulatory Environment
- Financial Management System
- Common Rule-Financial Management Standards
- Relevant FTA Circulars



# GRANTEE REGULATORY ENVIRONMENT

# Grantee Regulatory Environment



**State and Local Directives**

**Regional Office Interpretations**

**Other Headquarters Directives**

**FTA Circulars**

**OMB Circulars**

**Code of Federal Regulations**

**U.S. Code**

**Public Laws**

**Constitution**

# Grantee Regulatory Environment



State and Local Directives

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# **CODE OF FEDERAL REGULATIONS**

# Code of Federal Regulations

The Code of Federal Regulations consists of rules made by federal agencies and executive departments of the federal government.

# CFR Title 49 – Transportation

## *Part*

1. Organizing and delegation of power and duties
3. Official seal
18. Uniform administrative requirements for grants and cooperative agreements to State and local governments
19. Uniform administrative requirements for grant and agreements with institutions of higher education, hospitals, and other non-profit organizations
24. Uniform relocation assistance and real property acquisition for Federal and federally assisted programs



# Office of Management and Budget (OMB)

- OMB Circulars are established to convey uniform guidance in the form of instructions and information to executive departments and establishments. The Executive Office of the President uses them to exercise managerial and policy direction over federal agencies.
- Even though it is mandatory for the federal agencies to follow the Circulars, certain requirements can be waived at the discretion of the OMB.

# OMB Circulars Applicable to Grants Management

- A-21 Cost Principles for Educational Institutions
- A-87 Cost Principles for State, Local, and Indian Tribal Governments
- A-122 Cost Principles for Non-Profit Organizations
- A-133 Audits of States, Local Governments, and Non-Profit Organizations

# FTA Circulars

- FTA Circulars are issued in order to outline specific requirements and/or give grantees guidance on how to carry out the Common Rule, federal statutes, Executive Orders and other FTA policies
- The FTA reserves the right to waive certain requirements, at their discretion

# FTA Circulars

## Grants Management

- 4200 – PROCUREMENT
  - C 4220.1E Third Party Contracting Requirements
- 5000 – GRANTS MANAGEMENT – GENERAL
  - C 5010.1C Grant Management Guidelines
  - C 5200.1A Full-Funding Grant Agreements Guidance
  - C 5620.1 Guidelines for Preparing Environmental Assessments
- 6100.1C – Transit Research & Tech. Programs

# FTA Circulars

## Grants Management – cont'd

- 9000 – CAPITAL FACILITIES AND FORMULA GRANT PROGRAMS
  - C 9030.1C Urbanized Area Formula Program: Grant Application Instructions
  - C 9040.1E Nonurbanized Area Formula Program Guidance and Grant Application Instructions
  - C 9070.1E The Elderly and Persons With Disabilities Program Guidance and Application Instructions
  - C 9300.1A Capital Program: Grant Application Instructions
  - C 9400.1A Federal Transit Administration Design and Art in Transit Projects
  - C 9500.1 Intergovernmental Review of FTA Planning, Capital and Operating Programs and Activities

# Dear Colleague Letters

Dear Colleague Letters are sent out by the FTA in order to communicate certain policy updates and revisions to their grantees. The policies communicated via these letters are eventually integrated into the FTA Circulars when the Circulars are re-issued

# Other FTA Policies and Procedures

In addition to the Code of Federal Regulations, Federal Register notices, Circulars and Dear Colleague letters, the FTA communicates its policies and procedures to grantees via the following means:

- FTA Agreements, such as The FTA Master Agreement, Grant Agreements, Supplemental Agreements, Cooperative Agreements, Federal Transit Program Fiscal Year Requirements
- The FTA website, [www.dot.fta.gov](http://www.dot.fta.gov), which serves as a resource for all the items communicated above
- The FTA also updates their website with any new information and documents that they publish

# State and Local Directives

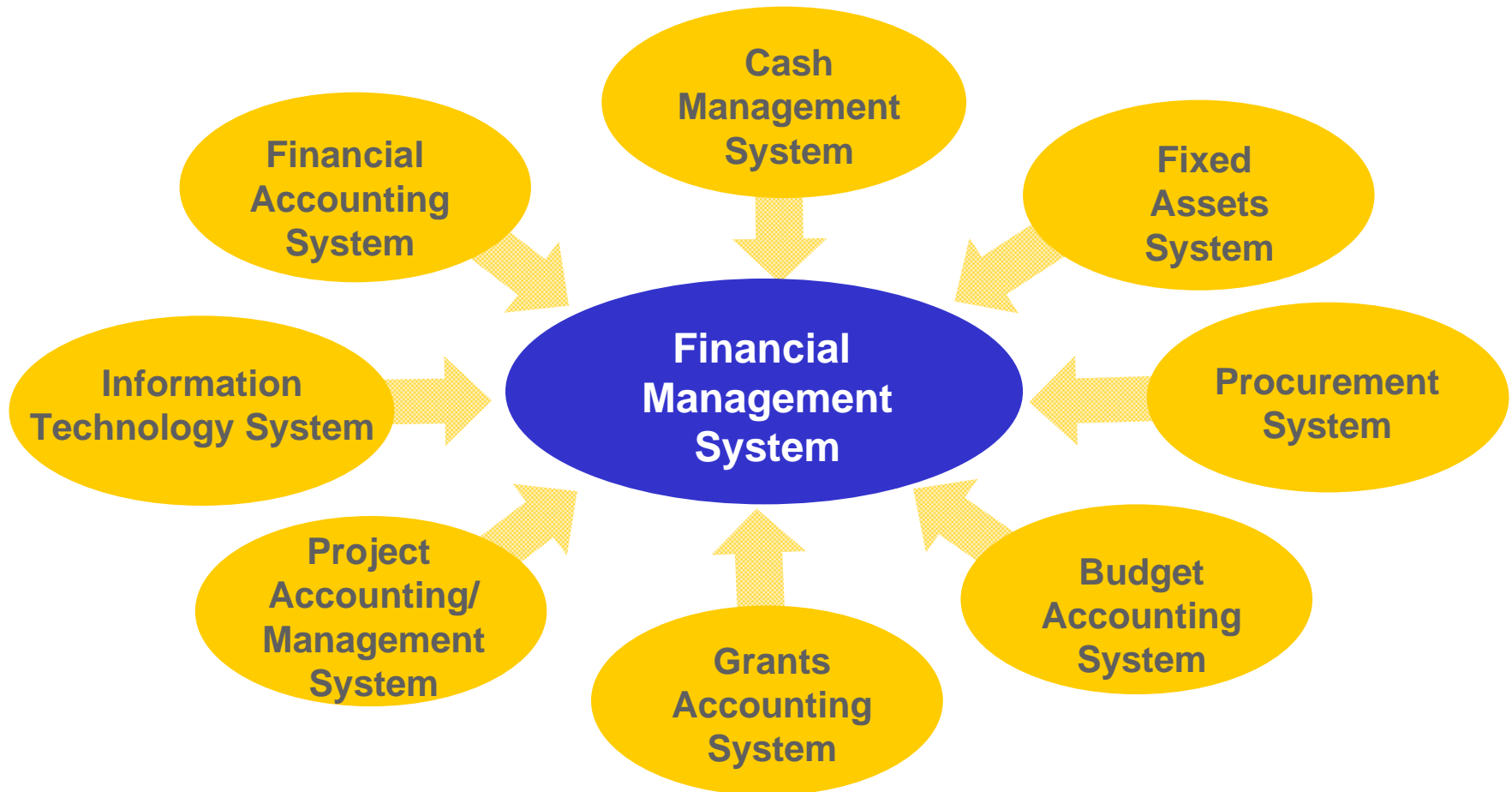
In many instances Federal policy incorporates, by reference, state and local policy.



# What Constitutes a Financial Management System



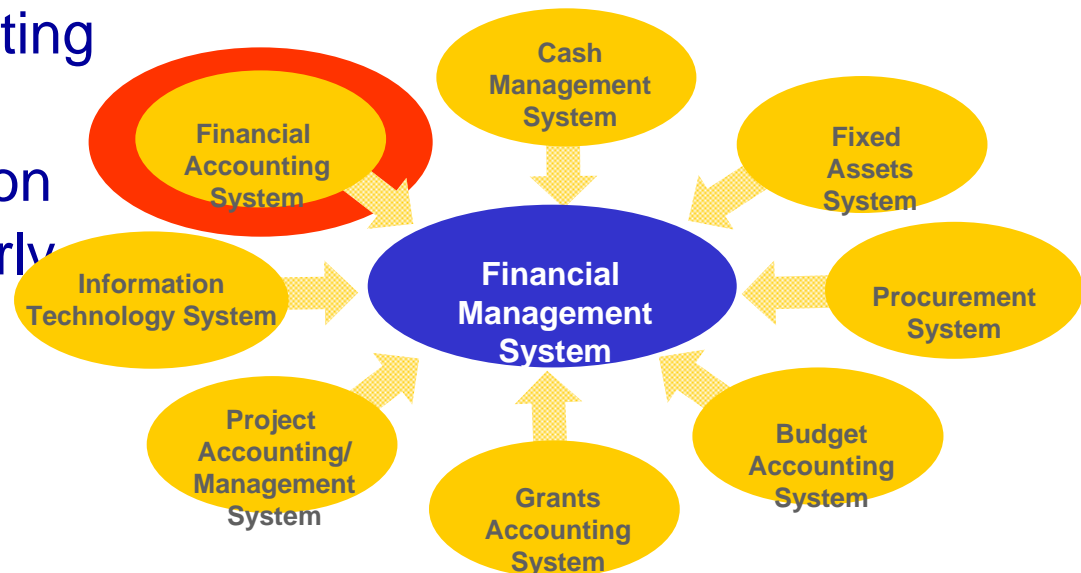
# What Constitutes a Financial Management System?



# Financial Accounting System

## Objectives:

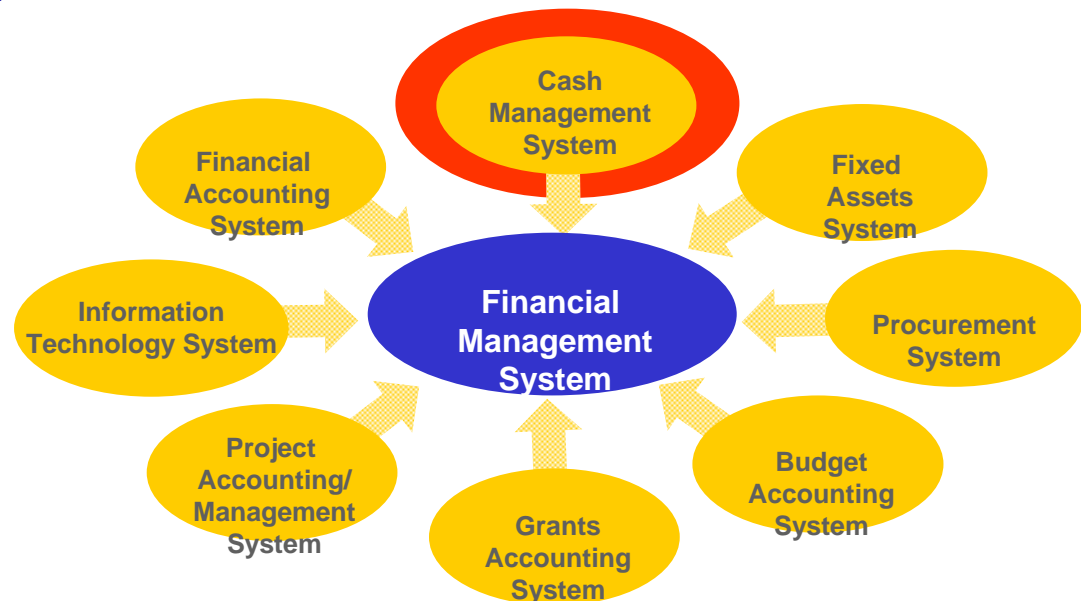
- Financial statements that provide current and complete disclosure of the results of financially assisted activities is presented
- Ensure that financial transactions are supported by source documentation
- Ensure that the accounting process is controlled and the financial position of the grantee is properly reported



# Cash Management System

## Objective:

- Ensure that the funding process is adequately controlled and ECHO requests are processed adequately and timely



# Fixed Asset System

## Objective:

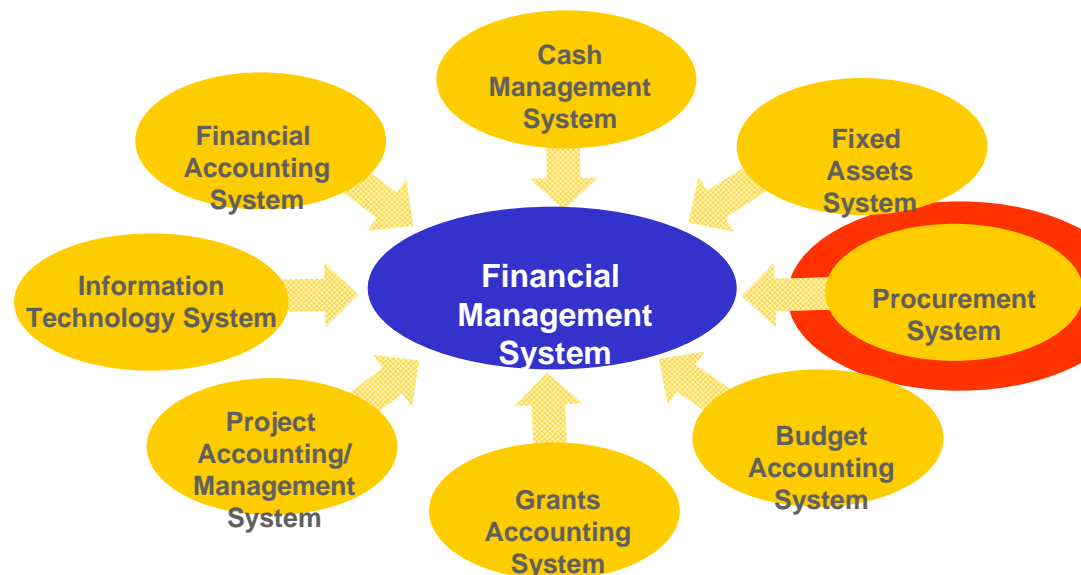
- Ensure that fixed assets funded with federal grants are adequately controlled, tracked, reported and maintained in accordance with federal regulations and FTA guidelines



# Procurement System

## Objective:

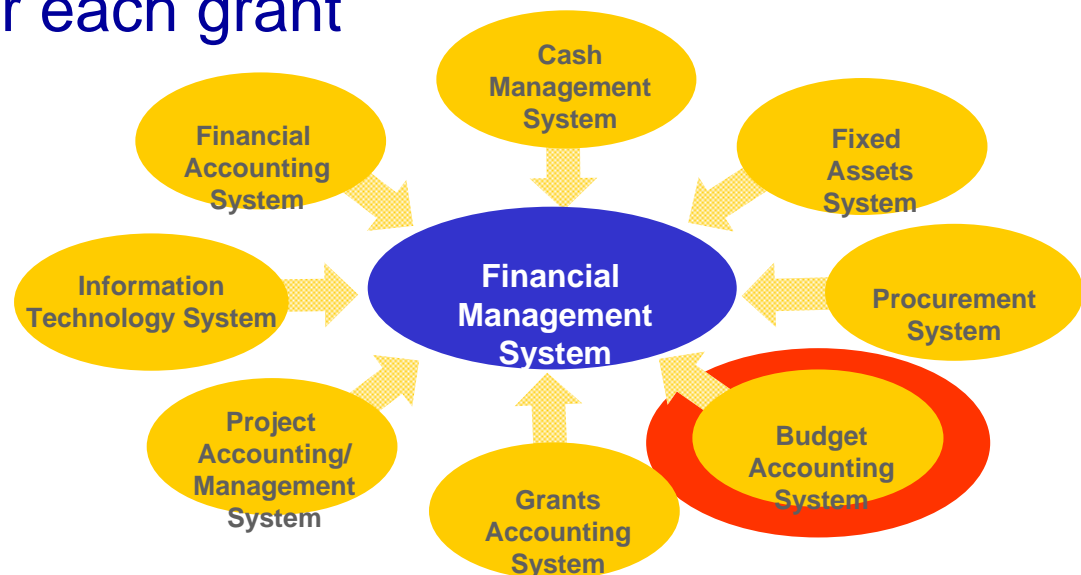
- Ensure that adequate controls are in place so that any costs applied to FTA grants/projects are reasonable, allowable, and allocable



# Budget Accounting System

## Objective:

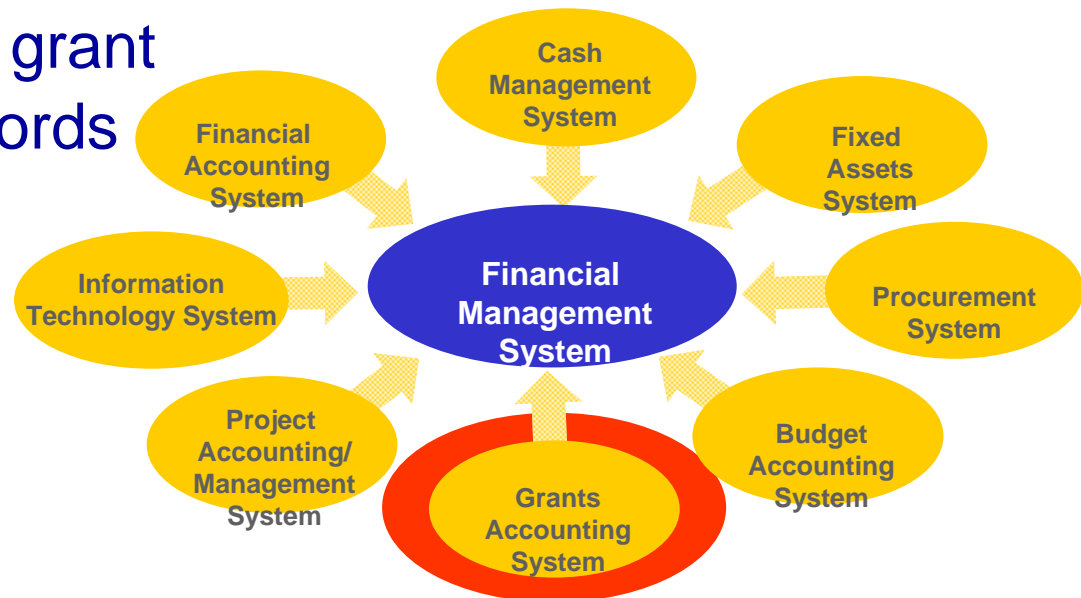
- Ensure that the Grantee has adequate internal controls and procedures in place for monitoring and reporting of actual outlays in comparison with budgeted amounts for each grant



# Grants Accounting System

## Objectives:

- Ensure that only acceptable charges are posted to grant-funded projects
- Ensure that controls are adequate to generate accurate grant records and budgets
- Ensure that authorized grant activity is posted to records in a timely, accurate and complete manner

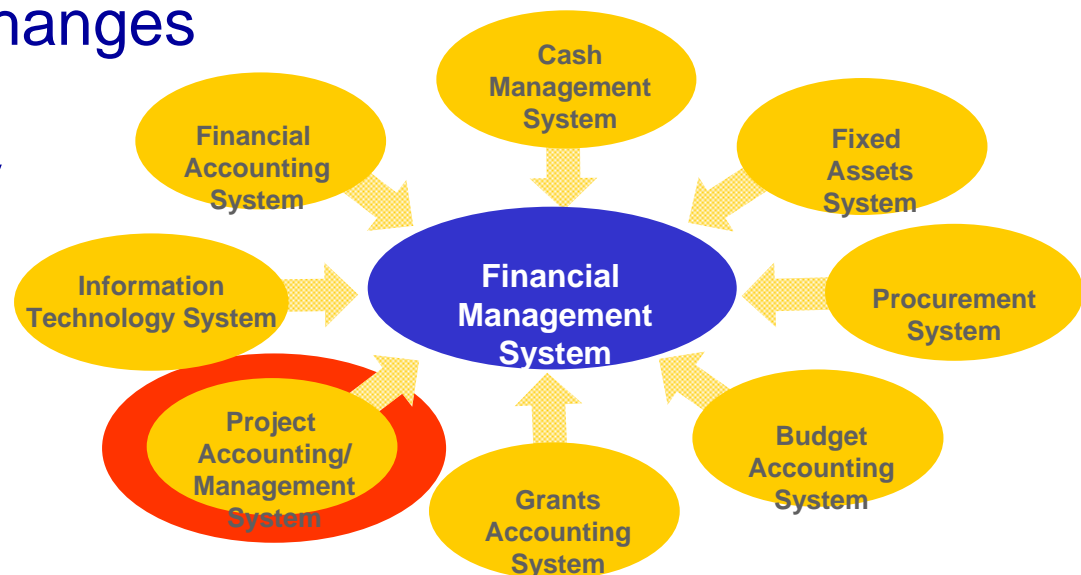




# Project Management System

## Objectives:

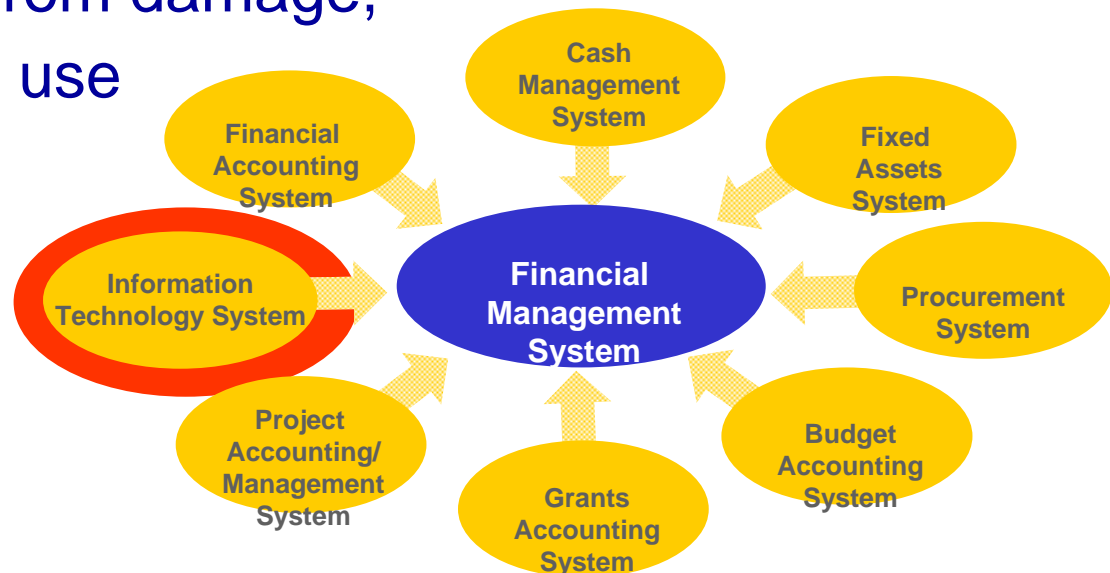
- Ensure that the grants management system properly reflects the status of projects through interface with the financial management system
- Ensure that project changes can be identified and addressed in a timely manner



# Information Technology System

## Objectives:

- Ensure that the needs of the grantee's system are adequately supported
- To plan and prepare for the protection of grantee assets and records from damage, loss or unauthorized use



# Common Rule – “Standards For Financial Management Systems”

- Not a choice or option
- Required for all grant recipients and sub-recipients
- Standards cannot be waived by FTA

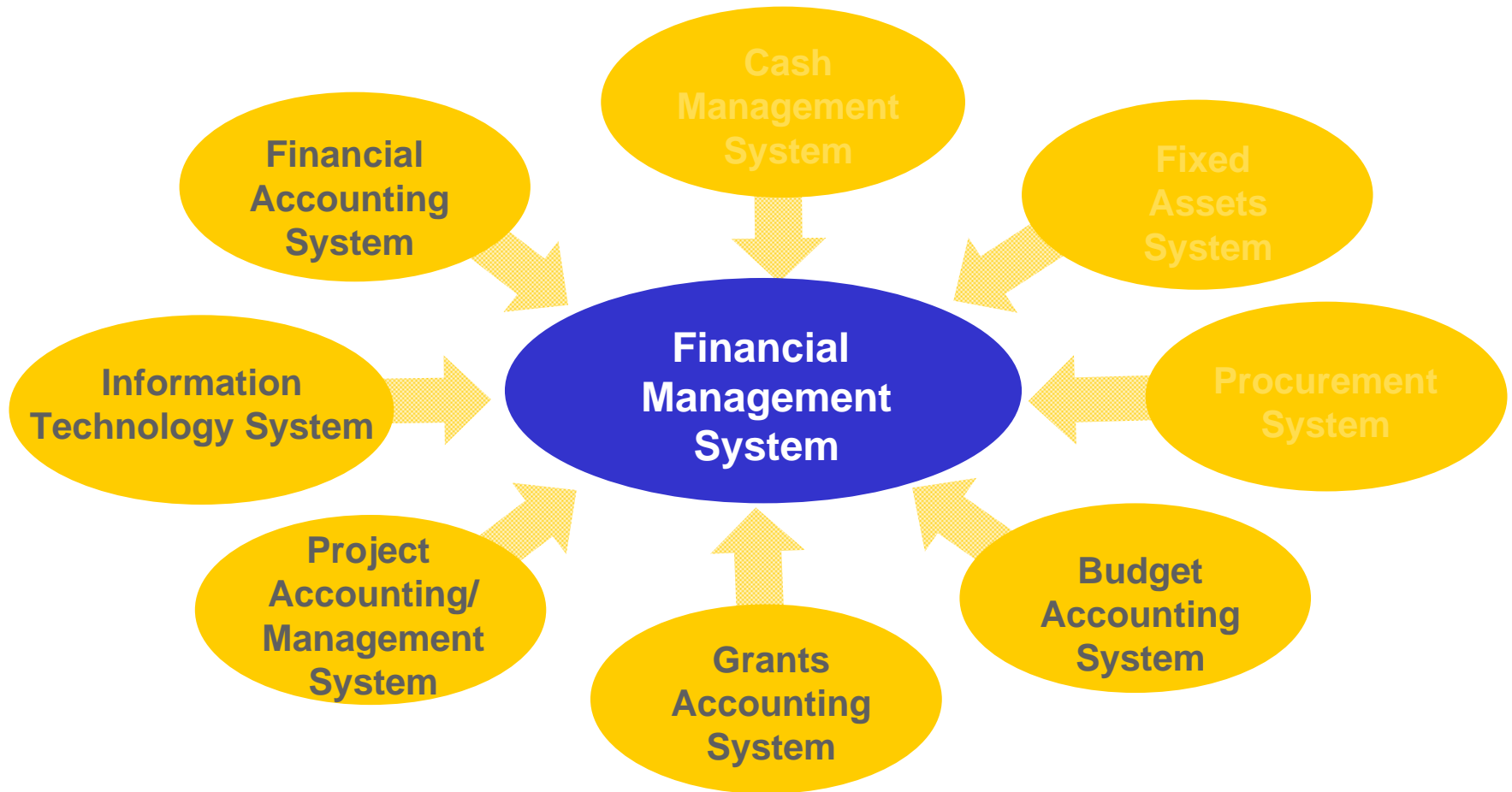
# Standards Addressed By Common Rule 49 CFR 19.21

- Financial Reporting
- Source Documentation
- Internal Control
- Budget Control
- Cash Management
- Allowable Cost
- Accounting Records

# Financial Reporting

19.21(b)(1) Accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in 19.52.

# Financial Reporting System Impact



# Financial Reporting

## Common Conditions

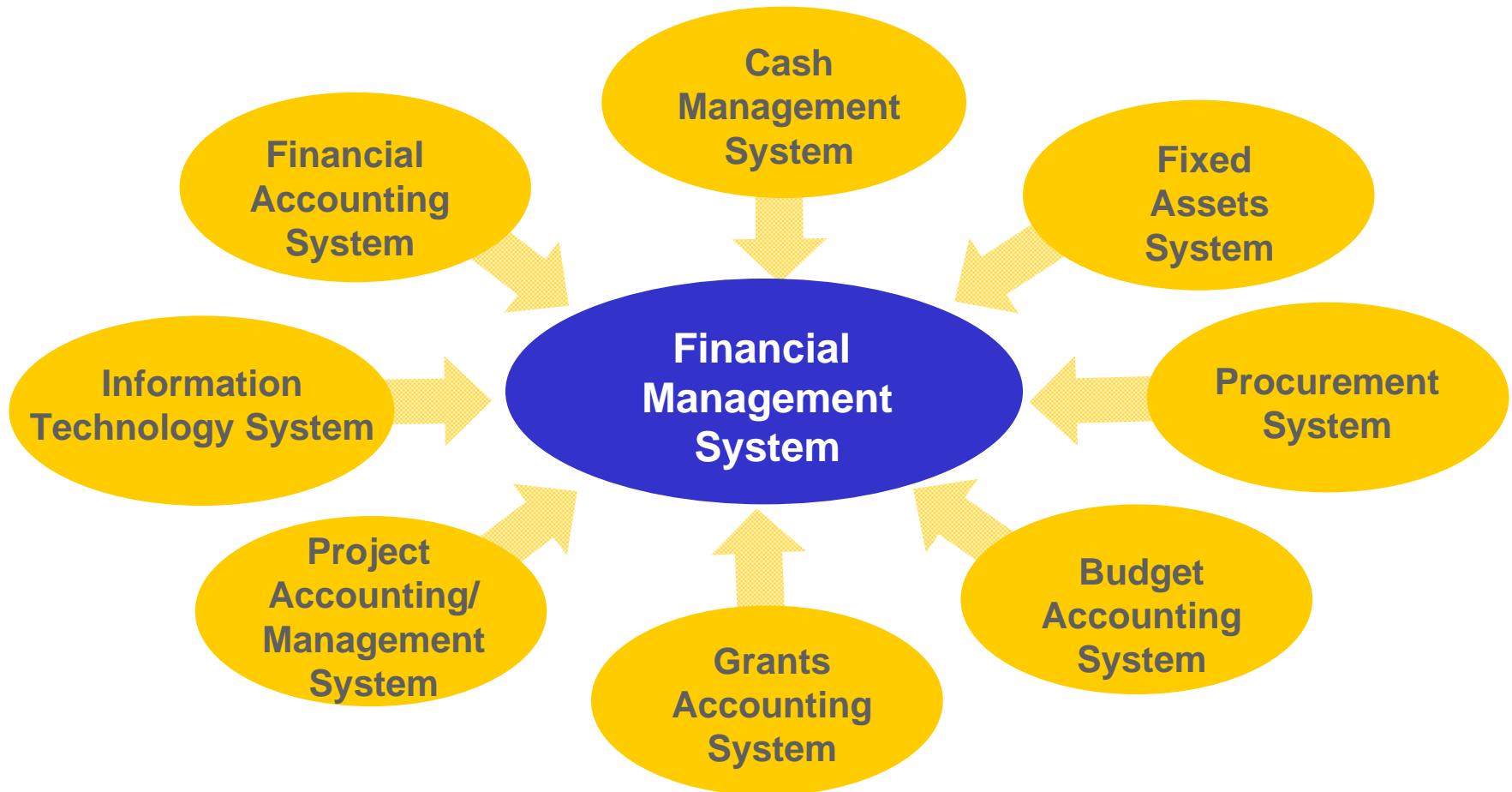
- Reported amounts of federal expenditures not in agreement with general ledger.
- Incorrect reporting of encumbrances.

# Source Documentation

19.21(b)(2) Records that identify adequately the source and application of funds for federally-sponsored activities.



# Source Documentation System Impact



# Source Documentation

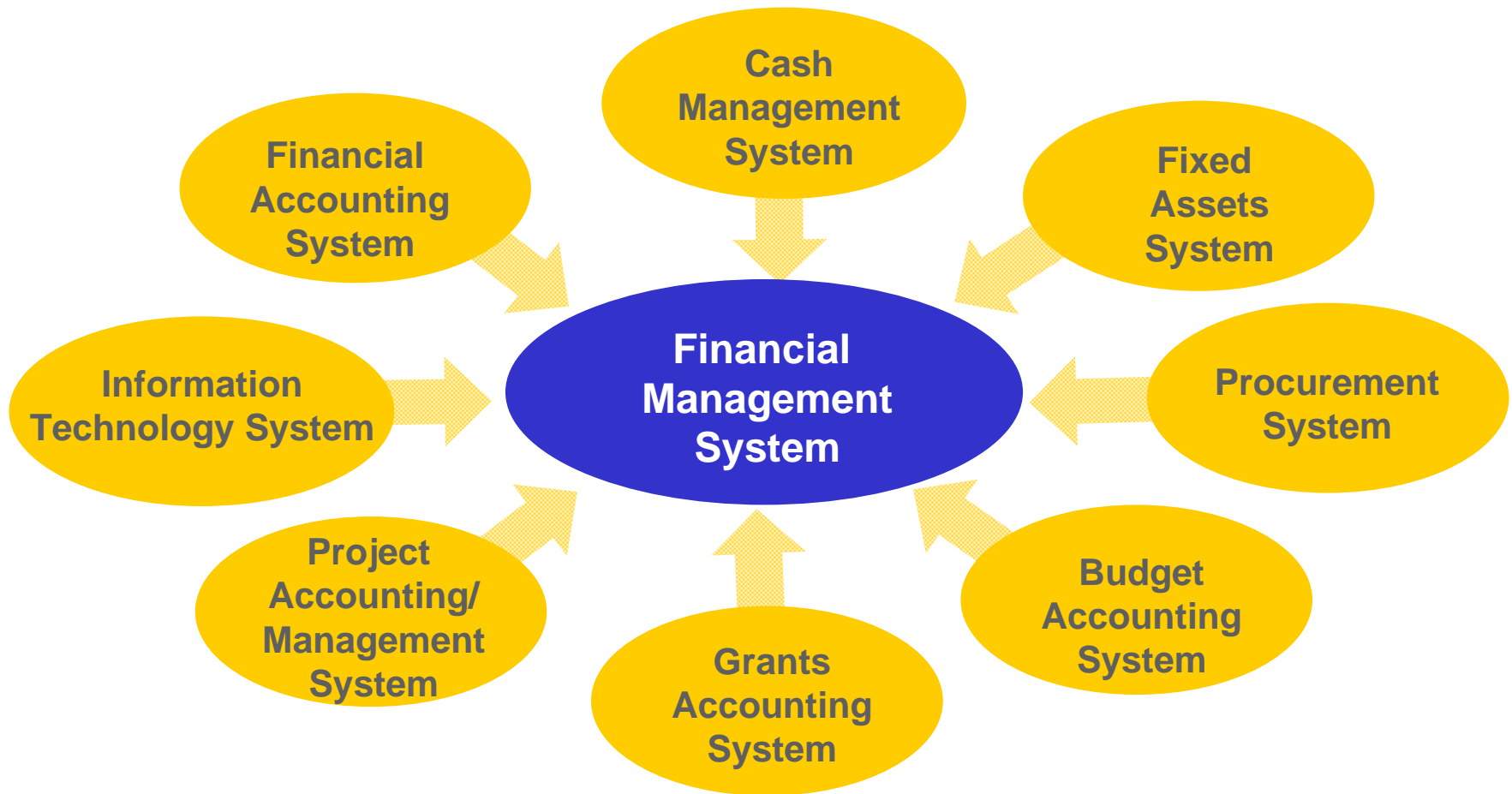
## Common Conditions:

- Justification for sole source procurement was not documented.
- Monthly reconciliations of accounts receivable and accounts payable prepared, but documentation is not retained.

# Internal Controls

19.21(b)(3) Effective control over and accountability for all funds, property and other assets

# Internal Control System Impact



# Internal Control

- Broad term for accountability, segregation of duties, and checks and balances
- Separate assets from the record keeper.

# Internal Control

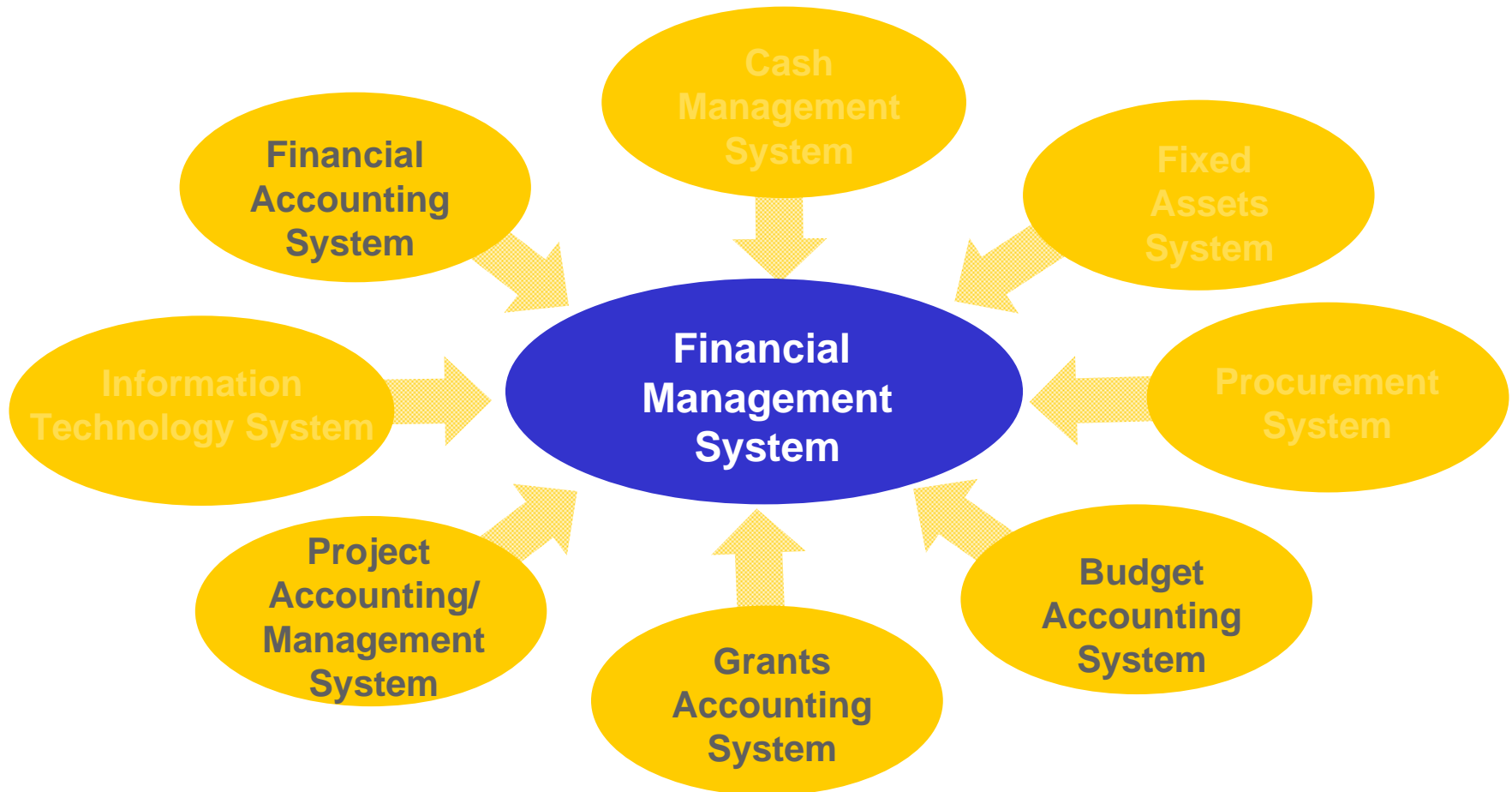
## Common Conditions:

- The grantee lacks a comprehensive disaster recovery plan
- Reconciliation of the federal cash account should be documented and approved
- Same individual maintains general ledger, reconciles cash accounts, receives cash, and maintains accounts receivable ledger

# Budget Control

19.21(b)(4). Comparison of outlays with budget amounts for each award.

# Budget Control System Impact



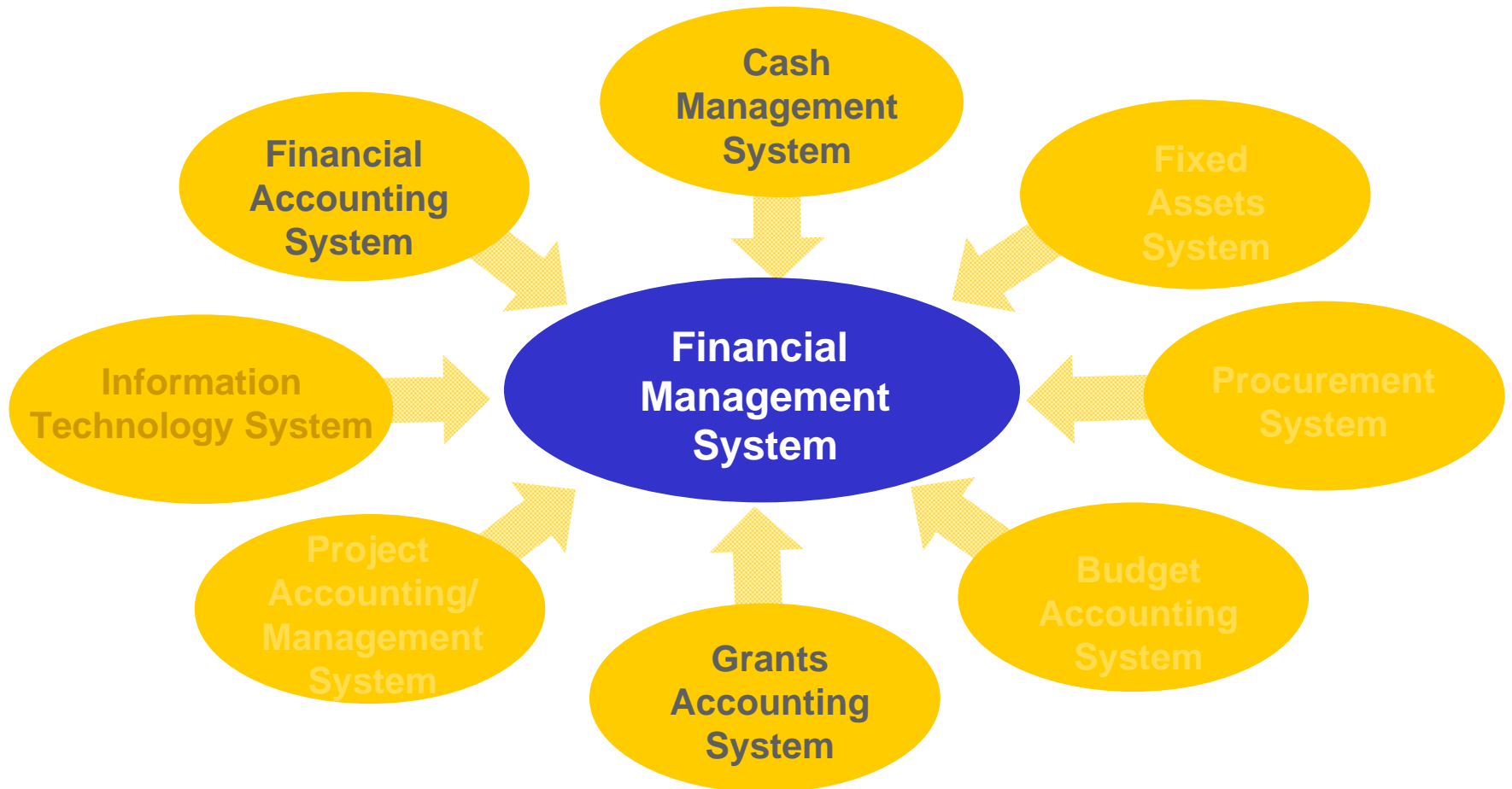


# Budget Control

## Common Conditions:

- Budget to actual analysis not performed for capital budget
- Explanations for budget variances not documented

# Cash Management System Impact



# Cash Management

19.21(b)(5). Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient.

# Cash Rules - Advances

- Recipients are to be paid in advance provided the following are maintained:
  - Written procedures that minimize the time elapsing between transfer and disbursement
  - Financial management systems that meet the requirements of section 19.21
- Cash advances must be limited to the minimum amounts needed

# Cash Rules - Reimbursement

- Reimbursement is the preferred method of payment when the criteria for advances cannot be met.

# Cash Management

## Common Conditions:

- Grantee drew down federal funds in excess of need and did not remit overdraw to FTA.
- Preventive Maintenance funds draw down 1/12 per month rather than as expenses incurred.

# Other Cash Management Topics

- Controls Over ECHO Drawdown Process
- Controls Over Cash in Banks

# Other Cash Management Conditions

## Common Conditions:

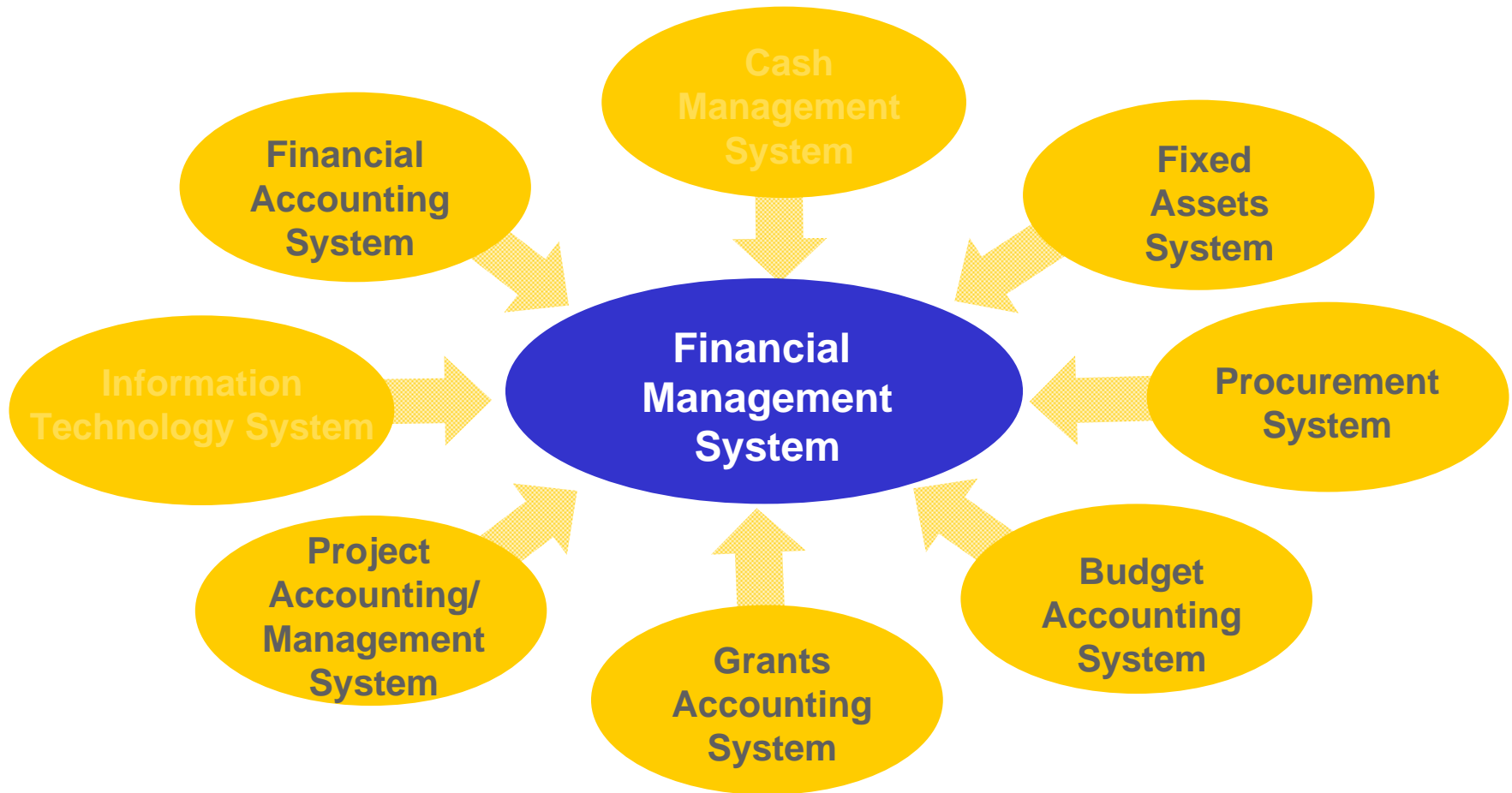
- No reconciliation of ECHO drawdowns to bank records and TEAM
- ECHO passwords shared by more than two individuals
- Bank reconciliations not performed in a timely manner



# Allowable Cost

19.21(b)(6). Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award.

# Allowable Cost System Impact



# Allowable Cost

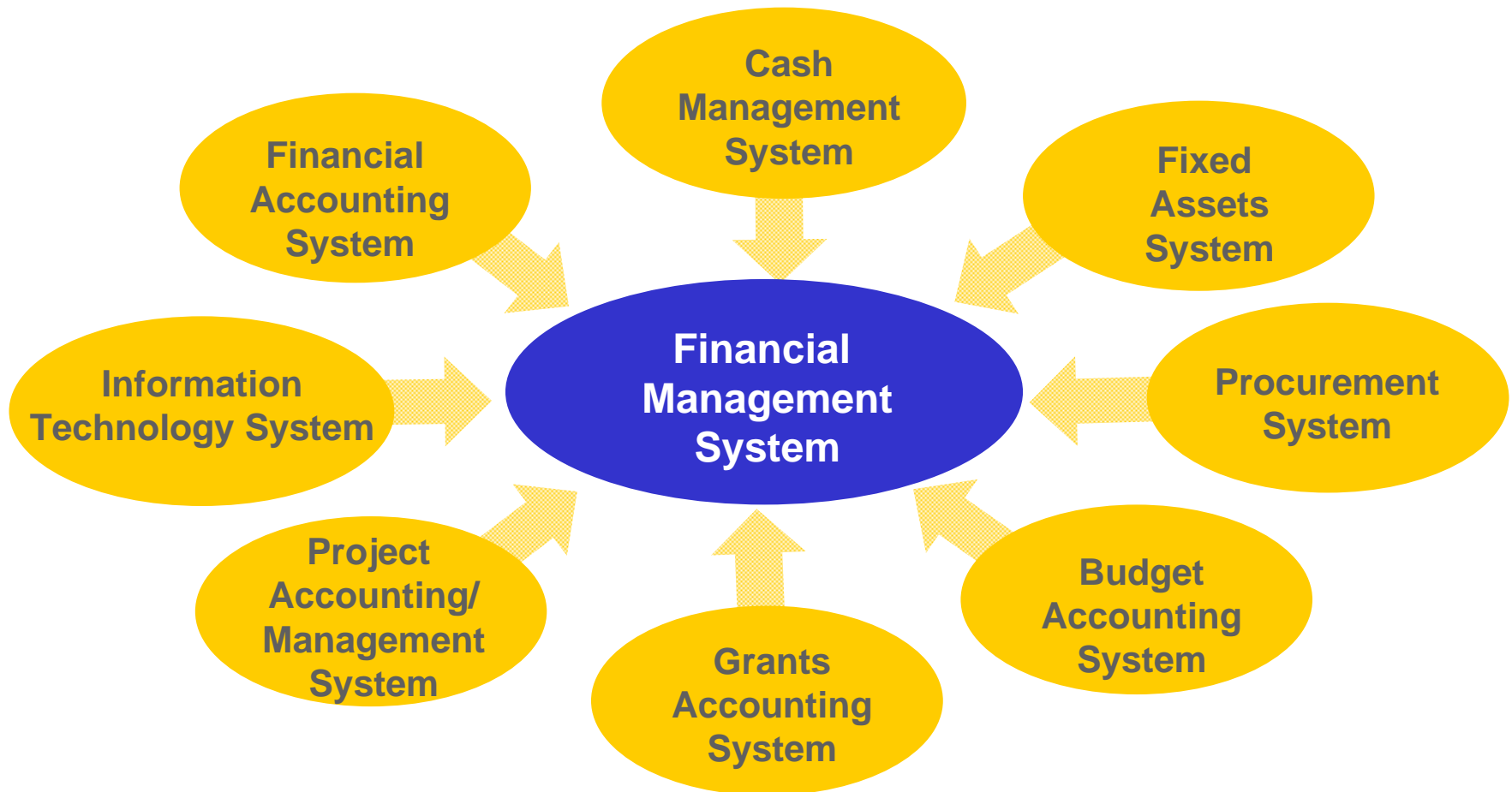
## Common Conditions:

- Force Account Plan and Fringe Benefit Rate not documented or approved.
- Grantee reported amounts of federal funding in excess of eligible expenditures.

# Accounting Records

19.21(b)(7). Accounting records including cost accounting records that are supported by source documentation.

# Accounting Records System Impact



# Accounting Records

## Common Conditions:

- Grantee does not have a formal record retention policy.
- Accounting system not being used and grant expenditures tracked using an Excel spreadsheet.

**PM BREAK**





# FTA Circulars and their Relationship to Financial Management Systems Reviews



# FTA Circulars in Relation to Financial Management Systems

As previously noted, FTA circulars are issued to establish FTA policy and implement the requirements of the common rule. The two circulars that have the biggest impact on the Financial Management Systems (FMS) Reviews are circulars 6100.1C and 4220.1E.

# FTA Circular 6100.1C in Relation to Financial Management Systems

Chapter I      Introduction, Overview of Specific Programs

Chapter II     Application Procedures

Chapter III    Project Administration and Management\*

Chapter IV    Financial Management Requirements\*

Chapter V     Payment Procedures

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

## Chapter Topics Include:

- Recipient Responsibilities
- Project Management Plan
- Civil Rights Requirements
- Project Reporting Requirements\*
- Project Evaluation
- Budget Revisions\*
- Grant or Cooperative Agreement Revisions/Amendments\*
- Administrative Amendment\*
- FTA Oversight
- Program Income\*
- Closeout Procedures\*
- Suspension of Project Activities
- Termination of a Project
- Procurement, Use and Disposition of Project Property\*
- Retention and Access Requirements\*
- Special Requirements

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III, Reporting Requirements

- **Milestone/Progress Reports** (90 days after the project year)
- **Quarterly Progress Reports** (30 days after reporting period)
- **Financial Status Report** (90 days after the project year)
- **Reports of Significant Events** (immediately after detection)
- **Final Report** (90 days after project completion)

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III, Reporting Requirements

## Purpose - Financial Status Report

- Primary source of financial information for the FTA
- FTA monitors the status of all open grants on a quarterly basis
- Key indicators of potential problems
  - Excessive unobligated balances
  - No financial activity for more than two quarters

# Financial Status Report

Financial Status Report (XX-03-1234)				
File View Window Find Help				
Summary		Financial Status		Remarks & Comments
Line:	Transactions:	Previous	This Period	Cumulative
A.	Total Outlays:	13,953,188	1,620	13,954,808
B.	Recipient Share of Outlays:	3,054,638	324	3,054,962
C.	Federal Share of Outlays:	10,898,550	1,296	10,899,846
D.	Total Unliquidated Obligations:			1,204,275
E.	Recipient Share of Unliq. Oblig.:			240,855
F.	Federal Share of Unliq. Oblig.:			963,420
G.	Total Federal Share (C + F):			11,863,266
H.	Total Federal Funds:			11,908,000
I.	Unobl. Bal. of Fed. Funds (H - G):			44,734.00

# Basic Requirements

- Prepare report on accrual basis
- Include financial activities for program of projects, including any operating assistance
- Submit report on TEAM no later than 30 days after the end of each reporting period

# Total Outlays

- Total Outlays (Line A) includes:
  - sum of actual cash disbursement for direct charges
  - indirect expense incurred
  - value of in-kind contributions
  - net increase (decrease) in amounts owed by the grantee (accounts payable) [applicable for those who maintain books on a cash basis.]
- Less:
  - Farebox revenues, rebates, refunds, or other credits (if operating assistance received).



# Examples of Total Outlays

- Cash disbursements for direct charges
  - Project construction costs
  - Fuel
  - Driver wages
  - Other operating expenses
- Indirect expense incurred
  - Overhead costs (e.g., rent, utilities, insurance)

# Examples of Total Outlays

- In-kind contribution
  - Use of facilities
  - Land, right-of-way
  - Services (e.g., legal, architectural)
- Accounts Payable
  - Goods received, not yet paid for
  - Accrued expenses (e.g., payroll, benefits)

# Share of Outlays

- Federal and recipient share of outlays (Lines B & C)
  - Pro-rata share according to the grant agreement per each project
  - Report actual total project costs, not just up to the budgeted total costs

# Total Unliquidated Obligations/Encumbrances

- Obligations incurred, but for which an outlay has not yet been recorded (Line D – Financial Status Report)
- Examples:
  - Signed contract for purchase of buses, however, delivery has not yet occurred
  - Contract for construction services not yet rendered
  - Open purchase orders
  - Goods and services not yet received

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

Grant Budget Modification -- Three Possible Actions:

- Budget Revision
- Grant or Cooperative Agreement Revisions/ Amendments
- Administrative Amendment

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

## Grant Budget Modification – cont'd

- Budget Revisions
  - Cannot be used to materially change the purpose of the grant
  - Expenses on an activity line item that increase beyond the approved amount require approval
  - Total cost approved by the FTA may not be exceeded unless a project amendment is requested

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

## Grant Budget Modification – cont'd

### Budget Revision

- ***Activity Substitution.*** If a project is amended to replace some activities by other activities within the original intent of the project, activity line items must be adjusted to reflect the change.
- ***Amount Substitution.*** Beyond assuring that the recipient's budget revisions will not change the amount or scope of a grant or cooperative agreement, the recipient may change the dollar amount of particular items under an activity line item.

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

Grant Budget Modification – cont'd

## **Budget Revision**

Prior FTA approval required for:

- An increase in any amount for an activity line item
- Proposed budget revisions for planning grants that exceed thirty percent



# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

Grant Budget Modification – cont'd

## **Grant or Cooperative Agreement Revision/Amendment**

- Required for:
  - A material change in the original approved work scope
  - Change in the ratio of federal/recipient cost share

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

## Grant Budget Modification

### **Administrative Amendment**

- May be used to change, or clarify the terms, conditions or provisions of a grant or cooperative agreement.
  - Comply with changes required by the FTA
  - Change year or type of funds obligated
  - Transfer equipment from one recipient to another
  - Reflect change in recipient's name or project completion date
  - Deobligate federal funds that are not needed to complete an approved project scope of work

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

## Program Income

### *Definition*

Income generated directly or indirectly from federally-supported activities

### *Use*

Grantees may retain program income so long as it is used for project or transportation purposes. Program income may be used to refund or reduce the local share of the grant from which it was earned.

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

Project Income Grantees May Retain for Transit Purposes:

- Farebox revenues
- Advertising
- Concessions
- Fees for services
- Other rental income
- Sale of commodities

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

## Close Out Procedures

- All responsibilities and work by the recipient are completed and the associated financial records are closed
- Closeout documentation must be submitted within 90 days following completion of all project work

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter III

## Close Out Procedures

### Close Out Process

- Recipient must initiate closeout by submitting the following:
- Final Financial Status Report
- Final budget revision reflecting actual project costs
- Inventory list of any federally owned equipment
- If property sold, proceeds reduce total project cost on a pro-rata basis
- Any other required reports

# FTA Circular 6100.1C in Relation to Financial Management Systems

## Record Retention

- Records must be maintained for 3 years after the submission of the final financial status report
- In the event of litigation, claim, negotiation, audit or other action, 3 year period begins after the completion of the action and resolution of issues
- For equipment, the 3 year period begins at the date of disposition
- For indirect cost allocation plans, the 3 years begin after the plan is submitted to the FTA for approval or at the end of the fiscal year that the plan covers, which ever is later

# FTA Circular 6100.1C in Relation to Financial Management Systems, Chapter IV, Financial Management

- Internal Controls
- Cost Allocation Plan/Indirect Cost Proposal
- Cost Standards
- Project Income
- Financial Reporting Requirements
- Annual Audit
- Third Party Contract Audits



# FTA Circular 4220.1E as it Relates to Financial Management

This discussion of 4220.1E focuses on issues surrounding testing allowable costs. It is not intended to replace formal procurement training.

# FTA Circular 4220.1E as it Relates to Financial Management

## Section 7C - Written Standards of Conduct

“Grantee shall maintain a written code of standards of conduct...”

Policy should address:

- Organizational conflicts
- Prohibition on receipt of gifts, gratuities, favors or anything of monetary value

May permit unsolicited gift of nominal intrinsic value.

# FTA Circular 4220.1E as it Relates to Financial Management

## Common Findings:

- Grantee Procurement Manual does not contain code of conduct policies for employees involved in the procurement process
- Grantee had not required Directors involved in procurement activities to certify compliance with standard of conduct
- Code of Ethics Statements not signed by employees.

# FTA Circular 4220.1E as it Relates to Financial Management

## Section 7I - Written Record of Procurement History

Grantees shall maintain records detailing the history of a procurement. At a minimum, these records shall include:

- Rationale for the method of procurement
- Selection of contract type
- Reasons for contractor selection or rejection, and
- The basis for the contract **price**

# FTA Circular 4220.1E as it Relates to Financial Management

## Common Findings:

- Grantee files did not contain adequate justification for sole source procurement
- Procurement files did not contain evidence of an independent cost or price analysis
- Grantee could not provide documentation to justify two contracts issued to one contractor

# FTA Circular 4220.1E as it Relates to Financial Management

## Section 8 - Competition

- All procurements will be conducted in a manner providing full and open competition.
- Unacceptable restrictions include...
  - Unreasonable requirements placed on firms for them to qualify to do business
  - Unnecessary experience and excessive bonding requirements
  - Non-competitive pricing practices between firms or between affiliated companies
  - Non-competitive awards to any person or firm on retainer contracts
  - Organizational conflicts of interest
  - Specification of only a “brand name” product without its salient characteristics and not allowing “an equal” product to be offered
  - Any arbitrary action in the procurement process

# FTA Circular 4220.1E as it Relates to Financial Management

## Common Findings:

- Grantee improperly awarded a contract to a contractor who did not submit a bid.
- Grantee did not obtain a sufficient number of quotes to justify a purchase.
- Grantee included evaluation criteria that ensured selection of a particular contractor.
- Inadequate justification for an emergency procurement.

# FTA Circular 4220.1E as it Relates to Financial Management

## Section 8B - Prohibition Against Geographic Preferences

- Grantees may not use instate or local geographic preferences in the evaluation of bids or proposals, except in those cases where applicable Federal statutes expressly mandate or encourage.
- Geographical location may be a selection criteria in procurements for A&E services provided its application leaves an appropriate number of qualified firms.



# FTA Circular 4220.1E as it Relates to Financial Management

## Common Findings:

- Grantee followed state procurement requiring geographic preferences, when possible to procure goods and services with federal funds

# FTA Circular 4220.1E as it Relates to Financial Management

## Section 8C - Written Procurement Selection Procedure

**“Grantees shall have written selection procedures for procurement transactions.”**

All solicitations shall...

- Incorporate a clear and accurate description of the technical requirements
- Use “brand name or equal” only when necessary
- Identify all requirements that offerors must fulfill and all other factors to be used in evaluating bids or proposals

# FTA Circular 4220.1E as it Relates to Financial Management

## Common Findings

- Grantee files did not contain evaluation/selection criteria for contracts awarded.
- Evaluation criteria not weighted.

# FTA Circular 4220.1E as it Relates to Financial Management

## Section 10 - Cost or Price Analysis

- Grantee must perform a cost or price analysis in connection with every procurement action including contract modification
- As a starting point, grantees must make independent estimates before receiving bids or proposals

# FTA Circular 4220.1E as it Relates to Financial Management

## Common Findings

- No evidence of cost/price analysis
- Grantee policy requiring 3 independent quotes not followed
- Grantee not adhering to documentation requirements for telephone quotes



**ALLOWABLE COST**

# OMB Circular A-122

## Federal Cost Principles

- A set of established accounting principles to be used in determining the allowable costs applicable to federal grants, subgrants, and cost type contracts awarded under federal grants.
- Implemented thru FTA Circular 6100.1C  
Chapter IV

# OMB Circular A-122

## Federal Cost Principles

A-122 is one of 5 sets of Federal cost principles:

- A-87 – State & Local Gov't (FAR 31.6)
- A-21 – Universities (FAR 31.3)
- A-122 – Non-profits (FAR 31.7)
- FAR – Federal Acquisition Regulations (48 CFR 31.2)
- CAS – Cost Accounting Standards – Only applies to contracts > \$500,000



# OMB Circular A-122

## What It Does

- Sets basic policies/procedures for identifying program costs
- Identifies allowable and unallowable costs
- Specifies allocation criteria
- Stipulates cost allocation plan requirements
- Cites documentation requirements
- Mandates cognizant agency approval/appeal concept
- Brings rationality to the cost determination and approval process

# OMB Circular A-122

## What It Does Not Do

- Supersede limitations imposed by law or regulation
- Dictate extent of federal funding or extent of matching required
- Dictate organizational form or management techniques needed for program administration
- Relieve state and local governments of stewardship responsibilities for federal funds

# OMB Circular A-122

## Circular Structure

Attachment A:	General Principles
Attachment B:	Selected Items of Cost
Attachment C:	Non-Profits not Subject to this Circular

# OMB Circular A-122 – Attachment A

- Objectives
  - Purpose: cost determination, not level of funding
  - Designed to provide that Fed. Awards bear fair share of costs
  - Profit provision outside scope
- Policy guides
  - Fundamental premise: state/local govs responsible for administration of Federal Awards
- Application
  - All Fed. Agencies
  - Sub-awards
  - Guide for FP cost based contracts
  - CAS
- Definitions
  - awarding agency, approval, contracts, cog. Agency, cost, state/local gov., etc.

# OMB Circular A-122 – Attachment A

Basic guidelines:

- Allowable
- Reasonable
- Allocable

# OMB Circular A-122 – Attachment A

## Allowable:

- necessary & reasonable
- allocable
- not prohibited under state/local laws/reg.
- Conform w/ Fed. limitations/exclusions
- apply uniformly to Fed. & non-Fed. Activities
- consistent cost treatment
- conform w/GAAP
- adequately documented
- not claimed on other Fed. Awards as cost or cost sharing

# OMB Circular A-122 – Attachment A

Reasonable:

Prudent person factors

- ordinary & reasonable for activity
- sound business practices
- market prices
- significant deviation from established practices

# OMB Circular A-122 – Attachment A

## Allocable:

- assessed to activities based on relative benefit
- assessed to all activities regardless of fund sources



# OMB Circular A-122 – Attachment A

- Composition of Costs
  - Total costs = direct costs + indirect costs - applicable credits
  - Classification: no universal rule; but must be consistent
- Direct Costs
  - Identifiable specifically with a particular cost objective, i.e.. project or award or primary function
- Indirect Costs
  - Costs of general support activities that benefit more than one cost objective
  - Not readily assignable w/o disproportionate effort

# OMB Circular A-122

## Examples of Direct Costs

Cost incurred in performing a function/project/grant:

- Bus/Rail operations
- Planning
- Customer relations and services
- Land acquisition/Real estate
- Construction
- Project Administration

# OMB Circular A-122

## Examples of Indirect Costs

### Administrative support activities

- Director's office and staff
- Human resources
- Accounting/Budgeting
- Purchasing
- General facilities management
- Internal audit
- General services
- Risk management

# OMB Circular A-122

## Unallowable Costs

- Alcoholic Beverages
- Bad Debts (unless provided for in federal program award regulations)
- Contingencies
- Contributions and Donations
- Entertainment
- Fines and Penalties

# OMB Circular A-122

## Unallowable Costs

- Defense of civil or criminal fraud or proceedings commenced by the U.S. or a State
- Fundraising/investment management costs, except for costs associated with pension plans
- Goods for personal use
- Housing and personal living expenses
- Lobbying

# OMB Circular A-122

## Idle Facilities/Idle Capacity

Unallowable except when:

- Necessary to meet fluctuations in workload
- Necessary when acquired, but idle due to changes in program requirements (allowable for a reasonable period of time, usually not to exceed one year)
- Normal cost of doing business and a factor in the normal fluctuations of usage

# OMB Circular A-122

## Interest

Unallowable, except:

- Financing costs of building acquisition, construction or fabrication, reconstruction or remodeling
- Financing costs of equipment
- Conditions:
  - Bona fide third party external to governmental unit
  - Assets used in support of federal awards
  - Earnings on debt service offset
  - Negotiate allowable interest on federal portion

# OMB Circular A-122

## Advertising and Public Relations

### Advertising

- Unallowable unless incurred for:
  - recruitment of personnel,
  - procurement of goods,
  - disposal of surplus materials and
  - meeting the requirements of the federal award



# OMB Circular A-122

## Advertising and Public Relations

Public Relations unallowable except when:

- Required by the federal award, and then only as direct cost
- Incurred to communicate to the public and press about specific activities or accomplishments that result from federal award
- Communicating with the news media regarding matters of public concern

# OMB Circular A-122

## Audit Costs

- Allowable provided performed in accordance with Single Audit Act
- Cost of Single Audit allowable in proportion of Federal expenditures to total expenditures.

# OMB Circular A-122

## Compensation

- Documentation
- Leave
- Retirement Plans/Pensions, Post Retirement Health Benefits
- Donated Services
- Severance Pay

# OMB Circular A-122

## Depreciation/Use Allowance

- May not be used in combination for a single class of fixed assets
- If use allowance used, should not exceed 2% of acquisition cost for buildings and improvements and 6 2/3% of acquisition cost for equipment
- Depreciation method shall not change unless approved by cognizant agency
- Must be supported by property records

# OMB Circular A-122

## Maintenance

- Unless prohibited by law, the cost of necessary maintenance, normal repairs and upkeep are allowable to the extent they:
  - Keep property in efficient operating condition
  - Do not add to the permanent value of property or appreciably prolong its life
  - Are not otherwise included in rental or other charges for space

# OMB Circular A-122

## Memberships

Allowable:

- Business, technical, and professional organizations
- Subscriptions to business, technical and professional periodicals
- Costs of meetings and conferences where technical information is disseminated
- Memberships in civic and community, social organizations (direct cost with approval)

# OMB Circular A-122

## Other Allowable Costs

- ADP Systems Development/Testing
- Employee Morale/Health/Welfare
- Gains/losses on disposition of property
- Pre-award costs
- Proposal preparation costs
- Self-insurance
- Taxes
- Travel
- Working capital reserves

# Circular A-122 Summary

- Background
- Cost principles
- Definitions